

# **State Department of Assessments and Taxation**

## **Fiscal Year 2005 Operating Budget**

Senate Budget & Taxation Committee, Health and Human Services Subcommittee  
The Honorable Gloria Lawlah, Chair

House Appropriations Committee, Subcommittee on Public Safety and Administration  
The Honorable Joan Cadden, Chair

### **Summary Of Current Year Assessment Cycle**

In late December the Department mailed over 645,000 assessment notices to Maryland property owners that reflected the growth in real estate values across the State for the past three years. This trend has created a statewide average increase in assessment values of 36 percent for the group of properties reassessed, reflecting an annual increase of 12 percent for each of the next three years. This is the largest value increase in Maryland since 1990, when values increased by 42 percent for the three year period. Attached you will find a breakdown by local subdivision.

The real estate market has been fueled by historically low interest rates, increasing purchasing power for home buyers. Maryland continues to be a very attractive place to live. This has generated competition for residential real estate and demand has outpaced supply, causing home prices to rise. Real estate has also become a preferred investment choice, boosting the values of commercial properties throughout the State.

Two segments of the market continue to be particularly strong: waterfront properties and high-end residential properties. Worcester, Montgomery, and Anne Arundel Counties have the highest residential assessment increases due to these factors. In Worcester County, communities just west of Ocean City are in the reassessment area. Many people are buying vacation or retirement properties in this part of Worcester County to take advantage of the many golf courses and the non-ocean waterfront. In Montgomery County, many of the most desirable neighborhoods, including Potomac and Bethesda, are receiving assessment notices. In Anne Arundel County, waterfront properties along the Severn and Magothy Rivers are included in the reassessment area.

The recent increase of value will be felt across all segments of the real estate market. Even lower priced homes have experienced an increase in value due to lower financing costs.

Homeowners with significant increases in assessed values may take advantage of locally-established assessment caps. These caps lessen the impact of rising assessments for homeowner occupied properties. They will have their assessment increase capped at 5 percent per year in Garrett, Howard, Kent, St. Mary's and Worcester Counties, and at 4 percent per year in Baltimore City and Baltimore County. Anne Arundel and Prince George's Counties have established 2 percent per year assessment increase caps for primary residences, and Talbot County continues to maintain a 0% cap for homeowners. By State law, the remaining counties have a tax cap of 10%. The commercial real estate market has continued to grow, however the

increase in value to this market segment has lagged behind residential properties in most counties. Statewide, assessments for commercial properties have increased by 20.9 percent for the three year period compared to 39.6 percent for residential properties. Only Garrett County experienced a larger increase in commercial property values than residential property values. Continued growth near the resort area at Deep Creek Lake has resulted in increased commercial values in northern Garrett County.

In Maryland, properties are reassessed, by law, once every three years, and are required to be assessed at their current market value so that each property owner pays only their fair share of local property taxes. The neighborhoods being reassessed were last revalued for January 2001. The assessments are based upon the examination of more than 112,000 sales which have occurred in the reassessment area over the past three years. Emphasis has been placed on sales which occurred in 2002 and 2003. Any increase in property value is phased-in equally over the next three years.

An assessment is only a portion of the formula used to determine a property owner's tax bill. Ultimately, next July's tax bills will be calculated with the tax rates which local governments will set in the spring. As part of the budgetary process, the property tax rates are established by the spending needs of each local government. Local governments may offset assessment increases by lowering their tax rates to the "constant yield" tax rate level. The constant yield tax rate provides local governments with a stable level of property taxes from one year to the next.

### **Hurricane Isabel**

The Department's local assessment offices were proactive in assisting property owners with abatements and ultimately processing tax refunds. A total of 3,264 properties were abated receiving tax refunds in the amount of \$112 million.

### **Good News**

Our Personal Property section processed and certified over 201,000 returns which resulted in local subdivisions collecting an estimated \$316 million in revenue. Our Real Property staff continues to receive high marks (98%) for their courtesy and professionalism. Our Charter Unit processed over 159,000 documents dealing with business formation and UCC financing statements.

### **Homeowners' Tax Credit Program**

Our Tax Credit programs received over 83,000 applications for our Homeowners' and Renters' Tax Credit programs. In FY'03 about 77% were eligible which resulted in a disbursement of \$42.7 million to Maryland citizens.

The analyst has raised concerns about the Homeowners' & Renters' Tax Credit programs, specifically, the downward trend in participation. I've been able to put together some information about the Homeowners' Tax Credit program which is attached to my testimony. In summary, the program has averaged a 3% decrease in

participation over the last 5 years. We continue to market the program, this past year we did TV spots about the program.

Owner-occupied homes less than \$150,000 in market value has declined over the last 3 years by about 4.5% on an annual basis. However, the number of properties that qualify for a Homestead credit has dramatically increased, from 17% in 2002 to 45% in 2004. It seems that both the Homeowners' & Homestead Tax Credit programs are providing Maryland taxpayers with protection from rising property values and the resulting increase in property taxes.

### **Budget Overview**

In FY'03, the Department reduced its operating expenses by \$1.0 million, Tax Credit programs by \$7.2 million and abolished 10 vacant positions. In FY'04, the Department abolished 23 vacant positions, terminated another 7 positions and reduced operating expenses by another \$2,450,000. Our current budget request is .7% over our FY'03 expenses. And, 91.5% of our total request is devoted towards salary, rent, and State computer operations. As Director, I have the responsibility to ensure that the both real and personal property tax systems are administered fairly, provide the best service to the business community, local subdivisions, and most of all are equitable to the citizens of Maryland. The cumulative effect of these reductions has left us in the position of not being able to keep up with the ever increasing number of accounts in both real and personal property. While manpower resources are constantly shrinking, real property accounts are steadily increasing in numbers. Over the last two years almost 35,000 accounts have been added to the assessment rolls and this growth is expected to continue. It is imperative that the Maryland citizens have confidence in our property tax systems. With the resources we have available, we will do the best job possible.

### **ASR Recommendations**

Included in the Governor's request is a one grade increase for our Personal and Real Property Assessors, this is a start in the right direction. All of you are aware of the problems we have retaining and recruiting assessors and we are very thankful to Governor Ehrlich for including this request as part of the budget, especially in these tough budget years. I trust that you will support the recommendation.

### **Analyst Recommendations**

The Department concurs with the analyst recommendations 1, 3, and 4. We oppose recommendation 2.